Audit's® MARKET ANALYSIS OF REITS AND REAL ESTATE COMPANIES

# Realty Stock Review



May 17, 1989 (Priced May 16) Volume XX, Number 9

# Selected Homebuilders Attractive Despite Adverse Rates

## Homebuilders Coming Out of The Closet to Emerge as Full Line Financial Companies

LED 51289 #41

Today's headlines could not be gloomier for stocks of major multimarket homebuilders. Samples:

"Home Building at a 6-Year Low"

"Short-Term Rates Rise...Speculation over Credit Easing Fades"

It's precisely these negative headlines that inspire our modest and selective optimism about the homebuilding stocks for two very different reasons:

1. Interest Rate Plays. Credit markets are on a see-saw, up one day, down the next, precisely because enough negative economic indicators are showing up that there's no longer a clear case for credit tightening by the Federal Reserve.

April's housing start drop to 1.36 mil. unit annual rate, lowest in six years, evidences a weakening economy. News such as this is the first robin of the credit spring. We don't know precisely when rates will clearly peak, but expect lower rates by year end.

If so, homebuilding stocks, as perennial interest rate plays, should do very well this year. Already stocks of Centex Corp., PHM Corp., and Hovnanian are at or near their 52-week highs, signalling a reservoir of investor interest as lower rates become more visible.

2. Growth Diversification Plays: Homebuilding stocks have been Wall Street's favorite interest rate playthings for so long that many investors and traders have trouble looking at their fundamentals. Yet it has taken a new accounting rule requiring builders to consolidate their ballooning financial services and industrial business sectors, to spotlight emergence of some homebuilders as authentic growth stocks.

The numbers coming off the pages of 1988 financials are truly astounding, as the 12 major builders reviewed in this and the May 26 issues now control $16.5 bil. assets with $2.15 bil. shareholders' equity (and some haven't issued consolidated financials yet). The dozen builders reviewed earned $434 mil. on $9.4 bil. sales in their latest years, as shown by our tally, in million dollars:

| Company | Assets | Equity | Rev. | Income |
|---|---|---|---|---|
| Centex | $1,045M | $377M | $1,845M | $40.0M |
| Hovnanian | 484 | 107 | 371 | 28.8 |
| J.M.Peters | 373 | 87 | 391 | 38.7 |
| K&B Home | 603 | 232 | 903 | 48.1 |
| Lennar | 510 | 232 | 381 | 27.6 |
| NVR, L.P. | 2,190 | 108a | 1,321 | 33.5b |
| PHM Corp. | 4,892 | 255 | 1,179 | 31.8 |
| Ryland Grp. | 4,246 | 169 | 1,272 | 40.7 |
| Std.Pacific | 749 | 210 | 492 | 74.6b |
| Toll Bros. | 257 | 73 | 200 | 24.1 |
| UDC-Univ. | 440 | 127 | 331 | 40.8b |
| U.S. Home | 727 | 176 | 736 | 5.0 |
| TOTALS | $16,515 | $2,152 | $9,422 | $433.7 |

a-After pfd. b-Pretax for MLPs.

These numbers don't fully portray the extent of diversification, mainly into mortgage banking and finance, which are naturals for companies generating millions in new mortgages each year. Nearly all multimarket builders have mortgage finance subs and are entering allied lines. Examples:

S&Ls: Four have now bought troubled thrifts as a way to shelter regular earnings. The list includes Centex, NVR, PHM, and Std. Pacific. Right now S&Ls are powering some earnings (notably PHM), but it will take some time before the wisdom of S&L diversification becomes clear.

REIT management: Two have sponsored REITs which issue collateralized mortgage obligations (CMOs): NVR and Ryland. CMO REITs have not done well for investors (see RSR, Jan. 27) but generate fees.

Building materials: Centex is a longtime cement producer which recently added a gypsum line; Ryland and NVR sell panel packages and/or modular homes. U.S.Home sold its materials operations, however.

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Beyond diversification, the 12 builders show generally good deliveries and backlogs at this stage of the cycle. Exceptions are generally regional: backlog is lower for Calif. builders Std. Pacific and J.M. Peters; northeastern builder Toll Bros.; and nationals NVR and PHM. Here's our tally of delivery and backlog trends:

| | | Deliveries | | Backlog | |
|---|---|---|---|---|---|
| Company | Date | DU | % Chg. | DU | % Chg. |
| Centex | Mar. | 6,539 | +24.0% | 2,559 | +44.0% |
| Hovnanian | Feb. | 3,126 | +4 .0 | 1,604 | +41.0 |
| J.M. Peters | Feb. | 1,223 | +14.0 | 277 | -39.0 |
| K&B Home | Feb. | 5,017 | +7.0 | 2,279 | +33.0 |
| Lennar | Feb. | 4,116 | +2.0 | 2,378 | + 4.0 |
| NVR L.P. | Mar. | 8,205 | - 3.0 | 3,339 | -20.0 |
| PHM Corp. | Mar. | 7,081 | - 1.0 | 1,908 | -20.0 |
| Ryland Grp. | Mar. | 9,379 | + 2.0 | 3,883 | - 3.0 |
| Std.Pac. LP | Mar. | 1,646 | -11.0 | 529 | -22.0 |
| Toll Bros. | Jan. | 766 | + 3 .0 | 315 | -26.0 |
| UDC-Univ.LP. | Mar. | 2,180 | +18 .0 | 1,068 | +16.0 |
| U.S.Home | Mar. | 5,996 | -18 .0 | 2,178 | - 9.0 |
| TOTALS | | 55,274 | + 1.2% | 22,317 | -0.3% |

We are adding Centex Corp. to our Portfolio Selector in the Homebuilders/Income Property Group. That group already includes Hovnanian, K&B Home, Lennar, Ryland, and Standard Pacific, all reviewed this issue. Please note that price/earnings ratios used in our Ranking reviews are based upon estimated earnings for 1989, rather than our normal historical EPS.

## Southmark Corp. Clears Decks For Restructuring Talks — With Red Ink

**Southmark Corp.** took a $1.04 bil. or $23.30 per share loss in its Mar. 1989 qtr., biggest quarterly bath ever for a real estate company. SM wrote down by $829 mil. receivables from and investments in partnerships, as well as real estate owned and third-party receivables. In addition it pared $104.3 mil. from value of assets held for sale, mainly insurance subsidiaries.

The loss gives SM negative book value of $18.87/sh. by our calculations, after deducting $389 mil. preferred at par and $34 mil. bond discount. Painful as the writedowns are, they are essential to restoring some measure of credibility for SM's new management before it opens restructuring talks with creditors, beginning next week. Prices of SM bonds plunged on the writedowns, with the 10-7/8% senior bond due Nov. 1, 1989 selling down to $57.50 per $100 principal. SM must come up with $125 mil. to repay these maturing bonds on Nov. 1. Watch the bond prices in days to come for clues on progress in the creditor talks.

SM must also get past a bitter proxy fight with outsider Herbert Parks, who wants to elect three directors (scaled back from five) at SM's May 19 special annual meeting. SM took full page ads in financial papers to blast Parks, but outcome is unclear at press time. We continue to feel that only SM's senior debt is worth a very speculative whirl at this time. Ch. XI remains a very real possiblity for this giant.

RSR 5/29A #41

# CENTEX CORP. (CTX: NYSE)

This Dallas-based nationally diversified homebuilding and construction giant has escaped major harm in the Oil Patch recession. Earnings recovered to a record $2.64/sh. in fiscal 1989, ending March, and CTX boosted payout 60% to $0.40/yr.

Assets and Operations: CTX operates three major business lines plus a new savings & loan operation, acquired Dec. 1988, with revenues (in millions) and contributions to net income after taxes but before before corporate overhead as follows in FY 1989:

| | Rev. | % | Income-a | % |
|---|---|---|---|---|
| Homebuilding/real est. | $769.4M | 42% | $29.9M | 65% |
| General contracting | 924.8 | 50% | 7.7 | 17% |
| Cement, gypsum products | 135.4 | 7% | 6.8 | 15% |
| Savings & loan | 15.9 | 1% | 1.5 | 3% |

a-Before corporate overhead.

**Gut Issue: Can CTX hold momentum if the economy tanks late this year or in 1990?** We think CTX can score another gain, to the $2.85-$3.00 range in 1990, in all but the deepest of recession. CTX has diversified far from its Southwestern base and made strong gains in homebuilding and general construction in FY 1989. Construction products, mainly cement and gypsum, were down however. CTX entered 1990 with record backlogs in homebuilding and construction:

Homebuilding gains: CTX enjoyed a strong homebuilding rebound in 1989, with earnings rising 83% to $29.9 mil. on a 33% revenue gain to $769.4 mil., these results including CTX's mortgage banking and diversified operations. The homebuilding group operates as a full-service company that builds homes, finances them via a mortgage subsidiary, and may resell them thru a residential brokerage unit.

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CTX delivered a record 6,539 homes in 1989, up 23.5%. All regions except the Southwest scored double-digit gains, with the big Southeastern region (31% of deliveries) up 15% to 2,039 deliveries, and the Northeast (22% of deliveries) up a strong 57% to 1,469. In contrast, CTX's traditional mainstay, the Southwest, fell only 1.5% to 1,446 deliveries.

Better, CTX ended the year with a record 2,559 units in backlog, up 44% from March 1988 and 17% ahead of Dec. 1988. Backlog was broad-based with the hardhit Southwest up 76% to 705 units. CTX has a strong land position, and a land development partnership it manages, Centex Development L.P., began FY 1990 by paying $50 mil. for the 1,077 acre Forster Ranch in San Clemente, Cal. The land will be developed for 2,200 lots. The LP units trade in tandem with CTX common.

General construction: Revenues hit a record $924.8 mil. and net earnings rose 63% to $7.7 mil. Backlog of uncompleted contracts stood at a record $1.07 bil., up 13% from 1988.

**Advice: With interest rates likely to decline, we are adding CTX to our Homebuilder/Income Property group in Portfolio Selector.** CTX manages volatile businesses to produce fairly consistent EPS, and should do well in the environment we see ahead. (KDC)

**CTX: NYSE Rank A March years 15.09 mil. shs.**
Price: $31.88 Div. $0.40 Yld. 1.3% P/E Ratio: 12.1X

| Year | Op.EPS | Div. | High | Low | Pr.X EPS |
|---|---|---|---|---|---|
| 1986 | $2.62 | $0.25 | $33.50 | $20.50 | 12.8- 7.8 |
| 1987 | 2.47 | 0.25 | 40.50 | 29.00 | 16.4-11.7 |
| 1988 | 1.50a | 0.25 | 34.00 | 15.13 | 22.7-10.1 |
| 1989 | 2.64 | 0.25 | 29.75 | 19.50 | 11.3- 7.4 |
| 1990E | 2.85-$3 | 0.40 | 33.25 | 28.00z | |

z-To date.
a-Excl.$3.13 acctg. chng. for income taxes in '88.

Finances: Debt: $222.9 mil.; equity: $376.9 mil. or $25.79/sh.; Debt/equity ratio: 0.6-1.
Address: 3333 Lee Pkwy., Box 19000, Dallas, TX 75219. (214) 559-6500.

RSR5129A

## HOVNANIAN ENTERPRISES (HOV: ASE)

New Jersey based HOV is a multimarket homebuilder of entry-level homes and townhomes. HOV is diversifying into adjoining northeastern and southeastern markets but still depends on the cooling N.J. market for the bulk of sales and earnings. HOV reported a record $1.38 EPS for its Feb. 1989 year on record $370 mil. sales. It sees $1.40-$1.55/sh. EPS in FY 1990.

**Gut Issue: Can HOV earn sustained profits outside its N.J. base?** In recent years, HOV rode N.J.'s housing boom to successive records in unit deliveries and profits. And even tho N.J. housing cooled dramatically in wake of the Oct. 1987 stock market crash, HOV has been able to maintain profit momentum in the state because it stresses low-priced, entry level housing and townhomes. HOV averaged about $110,000/unit for 1989 N.J. deliveries, about 40% below the $190,000 average house price there.

N.J. remains pivotal in HOV's outlook, since about 70% of HOV's 3,126 deliveries (up 4% overall) in 1989 were in the Garden State. We believe an even higher proportion of profits came from N.J. A major reason for HOV's success is its homegrown ability to get zoning approvals, letting it generate significant volume. Year-end backlog of 1,604 DU valued at $181 mil. is up 53% from 1988 in dollar value and 41% in units.

In contrast, HOV hasn't generated large unit volumes in its other areas, which remain marginal. In Fla., deliveries remain flat at about 21% of deliveries and margins are hurt by stiff competition. Newer projects in New York and New England (N.H.) are 5% and 3% of volume and not profitable. Majority owned New Fortis Corp. in Charlotte is consolidating to narrow losses. HOV will open its first project in Penn., north of Phil., later this year and expects to wrest profits from an area normally ceded to Toll Bros.

Urban projects: HOV is the only mass homebuilder trying to build low-rise, low-priced urban housing profitably. Its first phase of Society Hill in Newark, N.J. sold out 168 units at $86,950 to $102,950 for market-rate units (of 1,003 to 1,444 SF). A second phase of 135 DU is about 75% sold. Meantime HOV is beginning a 1,200 DU, waterfront project in Jersey City, and bidding on others.

Land values: HOV controls directly or thru options land for about 12,000 DU, or about a four-year supply. HOV figures its average developed cost at about $11,000/DU, vs. about $25,000 value when sold, or about $168 mil. or about $8/sh. pretax unrealized gain. Since the bulk of these lots are in zoning-tough N.J., they have obvious scarcity value. Also, HOV is building commercial properties for investment in its tracts and is building a 1 mil. SF mixed use project near New Brunswick, N.J., which is 75% preleased. Other projects will be undertaken as local markets permit.

**Advice: HOV shares should do well in a lower interest rate climate; slow approvals in N.J. could cause quarterly discontinuities but strong land holdings will help long-term.** (KDC)

**HOV: ASE Rank B Feb. years 20.90 mil. shs.**
Price: $10.25 Div. None Yld. 0.0% P/E Ratio: 7.4X

| Year | Op.EPS | Div. | High | Low* | Pr.X EPS |
|---|---|---|---|---|---|
| 1986 | $0.57 | $0.00 | $6.25 | $3.00 | 11.0- 5.3 |
| 1987 | 0.88 | 0.00 | 12.88 | 6.25 | 14.6- 7.1 |
| 1988 | 1.24 | 0.00 | 19.25 | 6.75 | 15.5- 5.4 |
| 1989 | 1.38 | 0.00 | 11.38 | 6.88 | 8.2- 5.0 |
| 1990E | 1.40 | 0.00 | 10.38 | 7.75z | |

z-To date. * Adjusted for 2-for-1 stock split paid 4/87.

Finances: Debt: $243.5 mil.; Equity: $107.2 mil. or $5.14/sh.; Debt/equity ratio: 2.3-1.
Address: 10 Hwy. 35, P.O. Box 500, Red Bank, NJ 07701. (201) 747-7800.

RSR5129A

## J.M. PETERS CO., INC. (JMP: ASE)

JMP, based in hot Orange County, Calif., has participated in the robust housing market the region has experienced. The only major obstacle in JMP's path at this juncture is availability of developable property and affordability. We give shares an initial B Ranking.

**Gut Issue: Will JMP finally have the oportunity to shine on its own now that Southmark Corp., in its scrapping for cash, could disgorge its controlling 87% JMP interest.?** JMP has become a dominant force in Calif.'s lucrative move-up market, yet the stock has been a relative underperformer due, we suspect, to its connection with finacialy distressed Southmark Corp. (SM:NYSE), whose sub. San Jacito S&L, has an 87% controlling interest in JMP and has provided JMP with about $47 mil. in financing.

SM just announced a first quarter loss of over $1 bil. (that's right, Billion). About a third of this loss is San Jacinto-related and we suspect that San Jacito is now significantly undercapitalized. All this is actually good news for JMP, which may be San Jacinto's single most saleable asset.

JMP posted a 3% EPS gain in the fourth (Feb.) quarter, but this pales against FY 1989's 68% leap. Backlog has taken a hit recently, closing FY 1989 at 277, a decrease of 39% from the 457 backlog at Feb. 29, 1988. But backlog is affected by the timing of the opening of new residential developments and deliveries. In the May (first) quarter, JMP has so far opened 14 new tracts.

JMP's healthy gross margins stood at 21.5% at FY 1989 end, up from 20.3% in FY 1988. New home contracts signed during FY 1989 were 1,043, down 17% from 1,228 in 1988. JMP closed 1,113 homes in 1989, up 14% from 1988's 1071 closings. Average price jumped 36% to $374,000. These numbers clearly indicate robust markets but also smell of overheating. In markets such as this, problems like speculative buying and decreasing affordability can easily act to extinguish sales growth.

As of Mar. 31 JMP had approx. 5,032 approved home sites available for development in 42 projects. Orange County accounts for 44% followed by Los Angeles Cty. at 28%. Other areas are: San Diego Cty., 11%; Riverside Cty., 9%; Ventura Cty., 6%; and San Bernardino Cty., 2%. Included in this group are 10 developments (mostly second phases) slated to start in 1990 and 1991.

**Advice: Buy as speculative play on SM sale.** SM says it will hold on to JMP, but we suspect in the final equation that SM cannot. We see JMP as great value (trading at a 3 P/E ratio) and it has been a stellar profit performer over the past year and will likely be thru 1990. Possible downside: As Calif.'s housing cycle progresses, the likelihood of appreciation becomes increasingly remote and JMP stock then becomes vulnerable. (MJH)

**JMP: ASE RANK B Feb. years 13.8 mil. shares**
Price: $9.25 Div. None Yield 0% P/E ratio: 3.0E

| | Op.EPS | Div. | High | Low | Price/EPS |
|---|---|---|---|---|---|
| 1988 | $0.43a | $0.00 | $ 6.50 | $2.25 | 15.1-5.8 |
| 1989 | 1.67 | 0.00 | 10.50 | 5.25 | 6.1-2.6 |
| 1990E | 2.81 | 0.00 | 9.75 | 8.50z | 3.9-2.9 |

a-Co. came public 9/87. z-To date.

Finances: Debt: $114.2 mil. Equity: $63.6 mil. or $4.62/sh. Debt/equity ratio 1.8 to 1.
Address: 3501 Jamboree Road, Suite 200, Newport Beach CA 92660. (714) 854-2500.

RSR5129A

## KAUFMAN & BROAD HOME CORP. (KBH: NYSE).

KBH, most profitable U.S. homebuilder in 1988 with $48 mil. earnings of $1.76/sh., is a niche homebuilder in Calif. and in France, where it also builds commercial buildings. Sponsor Broad, Inc. (formerly Kaufman & Broad) spun off its 84% stake in KBH in March 1989 after KBH paid a special $4.50/sh. dividend. We expect FY 1989 EPS of about $2.00-$2.10/sh.

**Gut Issue: How will KBH fare without ties to its initial sponsor?** Severing the tie between KBH and its sponsor, which continues as an insurance and financial services company under the Broad, Inc. banner (NYSE: BRO), isn't likely to have any operating impact, since KBH's management team is strong and deep. Financially removal of the "big brother" shouldn't hurt either since KBH has reasonably low leverage and good access to funds in its own right.

The major impact may well be to make KBH shares far more appealing to investors. Before the spinoff, only 4.3 mil. KBH shares were in the public float and KBH had only 251 shareholders of record. The spinoff effectively put 23.0 mil. KBH shares in the hands of BRO's 3,200 shareholders and gives KBH a much stronger hand in winning institutional support.

**Gut Issue: Does KBH's two-market approach expose it to risks in a downturn?** KBH delivered 4,836 units in its Nov. 1988 year, up 4%. Backlog of 2,781 homes valued at $428 mil. at end of March is a record, up over 35%. KBH has achieved success by sticking to two markets, California and France.

In California, deliveries rose 3% to 3,054 DU in 1988, or 63% of KBH's total. KBH focuses on first time buyers in Calif. with an average price at $140,000 in 1988 vs. state avg. of $185,000. Deliveries rose 19% to 674 for the Feb. 1989 quarter, reflecting availability of product as KBH plans opening 35 new communities in Calif. this year. While Calif. housing is superhot (combination of continued population growth and no-growth

policies which limit new home supply), KBH's small 2% market share and focus on lower-priced homes, should let momentum continue in any downturn.

In France, 1988 deliveries rose 7% to 1,396 homes as KBH's higher-priced homes and lower priced homes of subsidiary Bati Service were both strong. KBH's small Toronto unit saw volume fall 8% to 386 DU. Closings rose 25% in France and 89% in Toronto in the Feb. qtr. In France, KBH also has started building retirement complexes under Residence Liberty name, and is booking $440 mil. income over four years on contruction of a 675,000 SF Montparnasse office project in Paris, began 5/88. Overall KBH has 1.5 mil. SF under construction in France, including income properties presold to institutional investors.

Land: KBH controls 20,500 lots, divided 17,137 or 84% in Calif. (7,283 owned, 9,854 under option) and the balance in France and Toronto. In addition KBH has 2,349 Calif. acres under option.

**Advice: We are increasing KBH Rank to A and rate the stock a strong buy to $14 or not over 7 times our 1989 estimate.** We think the risk of exposure to Calif. is manageable and KBH's long history of developing highly competitive housing plus commercial development will reward long-term holders. (KDC)

**KBH: NYSE Rank A Nov. years 27.3 mil. shs.**
Price: $12.88 Div. $0.30 Yld. 2.3% P/E Ratio: 6.3E

| Year | Op.EPS | Div. | High | Low | Pr.X EPS |
|---|---|---|---|---|---|
| 1985 | $0.92 | NA | Not public | | |
| 1986 | 1.08 | $0.05a | $13.50 | $9.00 | 12.6-8.3 |
| 1987 | 1.32 | 0.20 | 21.00 | 7.75 | 15.9-5.9 |
| 1988 | 1.76 | 0.30 | 12.00 | 7.75 | 6.9-4.7 |
| 1989E | 2.05 | 0.30 | 16.25 | 9.88z | |

z-To date.
a-Initial offering 8/86; Div. for 1Q.

Finances: Debt: $249.3 mil; Equity $238.8 mil. or $8.75/sh. Debt/equity ratio: 1.04-1.
Address: 11601 Wilshire Blvd., Los Angeles, Cal. 90025. Ph: (213) 312-1200.

## LENNAR CORP. (LEN: NYSE)

RSR5129 A

Florida's largest homebuilder, LEN has used its strong land position to maintain EPS momentum during today's soggy Fla. market. Much of LEN's land strength derives from its Dec. 1986 acquisition of Fla. developer/landholder Development Corp. of America (DCA). LEN also builds and holds income properties as an anchor to windward for housing's inevitable downturns. We think EPS will hit about $2.90/sh. in LEN's Nov. 1989 fiscal year, up 5%.

**Gut issue: Could a really deep recession derail LEN?** LEN is structured to roll with the ups and downs of the homebuilding cycle in two ways, and we think these two items will aid LEN in all but a deep recession:

(a) Debt load peaks at the top of the housing cycle and is paid down as building declines; right now debt is moderately low at 0.6 times equity, signaling some slowdown ahead.

(b) Income properties are inventoried for sale to bolster EPS when housing slows. Asset sales, mainly one large land tract, generated 10% of 1988 pretax profit. LEN owns $96 mil. (or 15% of assets) in 620,000 sq. ft. of operating properties at cost, including about 2,300 apartments, offices, neighborhood shopping center, and a 297-room Ramada Inn in Ft. Lauderdale, expected to be sold this year at a pretax gain we estimate at about $0.70-$0.80 per sh.

Homebuilding: LEN delivered 4,131 homes in its Nov. 1988 year, derived 72% southeast Fla. (Miami to Palm Beach); 18% other Fla.; 5% Ariz.; and 4% joint ventures. Product mix was 37% single-family detached; 22% townhomes; and 37% multifamily. Average price of $81,600 is 42% below the average U.S. new house price, giving LEN a major position in entry-level and retirement housing.

Feb. qtr. deliveries fell 1.8% to 833 units but backlog rose 3.5% to 2,378 units, mainly because LEN added 200 backlog units when it acquired the Richmond Homes unit of M.D.C. Corp. in Dec. LEN paid $18.7 mil. cash, below Richmond's book value.

Land for investment of $36.2 mil. is 7% of total assets. LEN controls via direct ownership, options and joint ventures land and lots for approx. 27,450 homes, or about a 7-year supply. About two-thirds of lots are in Southeast Fla. Major joint ventures include 3,500 DU Doral Park; 6,800 DU Huckleberry; and 3,400 DU Turtle Run.

**Advice: LEN holds a liquidity buffer against down-turns, plus income property and land values. We see EPS rising about 5% to $2.90 in 1989, and rate the A-Ranked shares a buy below book value.** (KDC)

**LEN: NYSE Rank A Nov. years 9.88M total A & B shs.**
Price: $21.13 Div.$0.24a Yld. 1.1% P/E Ratio: 7.3E

| Year | Op.EPS | Div. | High | Low | Pr.X EPS |
|---|---|---|---|---|---|
| 1985 | $1.30 | $0.20 | $15.13 | $10.25 | 11.6- 7.9 |
| 1986 | 1.43 | 0.20 | 21.25 | 11.88 | 14.9- 8.3 |
| 1987 | 2.50 | 0.23a | 35.38 | 13.38 | 14.1- 5.4 |
| 1988 | 2.78 | 0.24a | 21.50 | 14.75 | 7.7- 5.3 |
| 1989E | 2.90 | 0.24 | 22.75 | 17.25z | |

z-To date. a-Class A div.; B Class voted 4/87.

Finances: Debt: $147.9 mil.; equity $237.9 mil. or $23.92/sh. Debt/equity ratio: 0.6-1.
Class B (10 votes) is primarily held by Chrm. L. Miller, giving him approx. 83% voting power.
Address: 700 N.W. 107th Ave., Miami, Fla. 33172. (305) 559-4000.

RSR 51789 B

## NVR, L.P. (NVR: ASE)

NVR (formerly NVRyan) L.P. is the national multimarket homebuilder combining a relatively new Washington, D.C. builder with former giant Ryan Homes, acquired by tender and merger in 1986-87. NVR now is evolving into a diversified building/finance company with separate profit centers in land, homebuilding, building materials, and financial services/banking. Homebuilding remains the driving force behind profits, and NVR is moving into higher-margined upscale homes. NVR recently acquired a Calif. homebuilder in its first move west of the Mississippi.

**Gut Issue: With housing unit volume down and sales weak in most markets, NVR must look to new diversified operations for profit growth.** This "new look" NVR demands a closer look at its integrated parts:

Homebuilding and land development: NVR now views homebuilding and land development as separate profit centers, but results are combined in public reports. NVR finds homebuilding soft and tending to recession in all markets and price ranges. Unit deliveries rose 2.4% to 8,556 homes in 1988 but Mar. qtr. volume fell 20% to 1,422 units. Backlog fell 20% to 3,339 DU at Mar. The offsetting news is that dollar value of backlog is up 7.5% to $557 mil. as average house prices have moved up 35% to $166,900.

Profit margins for these lines widened to 16.8% from 15.4% in the Mar. qtr., even tho 1988 results included a very profitable $40 mil. land sale. In the Wash./Baltimore area, which accounts for nearly 60% of housing sales, NVR attributes softness to economic uncertainty and a slow transition to the Bush Administration. NVR's central region (NY, PA, OH, IN, KY) deliveries fell 13% in 1988 to 1,935 DU, or 23% of sales. NVR has pulled out of the Tidewater region and Cleveland, but plans remaining in Florida despite red ink. In Oct. 1988 NVR paid $7 mil. for H.R. Remington Props., adding about 350 building lots split between the San Francisco and Orange County (Los Angeles) areas. Remington should boost 1989 EPS.

Financial services/banking: Mortgage banking fees nearly tripled to $10 mil. and financial services netted $5 mil. The group includes $400 mil. McLean Federal S&L (renamed NVR Federal Savings Bank). In Dec. 1988 NVR paid $16 mil. for the S&L and received $36 mil. cash aid from Federal S&L Insurance Corp., which has agreed to provide capital and yield maintenance that could total $50 to $70 mil.

Leverage: NVR remains fairly highly leveraged, result of heavy borrowing in mid-1987 to finance the Ryan acquisition. NVR has cut debt but remains obligated for $624.7 mil. non-finance debt, or 4.8 times equity including $23.2 mil. preferred. So far it has been able to sustain EPS in face of rising interest rates but further rate rises could hurt EPS. About $230 mil. debt floats with prime and about $233 mil. carries 12.75% average rates.

**Advice: We continue to urge caution on NVR until the interest rate and homebuilding cycle start turning positive again; see page 1 for our current interest outlook.** We see 1989 as being flat unless interest rates turn down. As a master limited partnership, NVR pays no Federal income tax, hence the higher dividend yield. (KDC)

**NVR: ASE Rank B Dec. yrs. 25.34 mil. units**
Price: $7.13 Div. $0.80 Yld. 11.2% P/E Ratio: 5.5E

| Yr. | Oper. EPS | Div. | High | Low | Price/EPS |
|---|---|---|---|---|---|
| 1985 | $0.38 | $0.00 | NM | NM | None |
| 1986 | 0.75 | 0.37 | $10.00 | $4.50 | 13.3-6.0 |
| 1987 | 0.76 | 0.56 | 21.63 | 3.63 | 28.5-4.8 |
| 1988 | 1.25 | 0.52 | 7.38 | 3.88 | 5.9-3.1 |
| 1989E | 1.30 | 0.80 | 7.75 | 5.88z | |

NM-No market. z-To date.

Finances: Debt: $624.7 mil. Pfd.: $23.2 mil. Common Equity: $108.0 mil. ($4.26/un.). Debt/equity ratio: 4.8-1.
Address: 7601 Lewinsville Rd., Suite 300, McLean, Vir. 22102. (703) 761-2000.

RYL51789 #41

## THE RYLAND GROUP, INC. (RYL: NYSE)

RYL is a major builder of single family attached and detached homes nationwide (with a mid-Atlantic modular housing unit). Its growing financial services group includes a large mortgage banking company, asset management for a recently created collateralized mortgage obligation (CMO) REIT, RAC Mortgage (RSR, Sept. 23, 1989), and a parallel mortgage investment fund. RYL surprised by earning $3.10/sh. in 1988 but seems likely to end 1989 slightly lower.

**Gut Issue: Can a move to higher priced units offset widespread sogginess in unit demand?** RYL's bread and butter traditionally has been entry level single family homes, but now selling prices are creeping up well ahead of national averages. This trend is worrisome because house prices have outrun affordability in many parts of the country, notably East and West Coasts, and runaway prices often carry the seeds of downturn.

RYL's average house price delivered at $100,900 in 1988, up 6%, on deliveries of 9,354 homes, largest volume among builders reviewed this issue. But average price of homes closed moved to $108,250 at the end of March and average price of 3,883 homes in backlog rose 16% to $127,660. Prices in RYL's bellwether Mid-Atlantic region (Baltimore/Washington with 41% of volume) rose 12% to $149,300.

New orders fell 9% in the quarter to 2,429 homes, with Fla. rising 32%, California (Brock Homes and joint ventures) falling 2%, and Mid-Atlantic and Central regions off 9%. The $496 mil. dollar value of backlog is up 13%. Calif. markets remain strong and M.J.Brock will open six new projects in the June qtr., adding

to product available for sale. Any new upmove in interest rates (which we do not expect) could interrupt what looks like a strong but not sensational year for RYL.

One big variable for RYL is its need to keep escalating costs under control in 1989. Gross margins slipped to 15.6% of settlements in 1988, down from 16.1%, and revived a bit to 15.9% in the Mar. qtr. Calif. could provide some margins relief if volume there picks up with the new tracts. RYL is getting its best results in Calif. thru joint ventures, which account for approx. 63% of Brock backlog and new contracts. Brock goes in as the general managing partner and receives a 3-4% fee taken against project revenues.

Ryland Modular Homes' units fell 45% in the March qtr. to 213 DU and new contracts dropped 42%. Backlog is off 36% to 564 DU, the weakness reflecting inability of RYL's smaller builder customers to sustain sales in this rate climate.

Financial services: RYL's financial services sector generated 23% of pretax income in 1988 and 22% of income in the Mar. qtr. The sector includes mortgage banking and REIT/asset management, plus limited purpose subsidiaries devoted to mortgage bond issues.

**Earnings and dividends:** RYL's earnings fell 19% to $0.35 in the Mar. qtr. and while we don't see that big a drop for 1989, we think EPS will fall from the $3.10 of 1988 to about $2.75/sh.

**Advice: Hold or buy long-term.** RYL is trading at a 50% premium to book and at about 7 times our 1989 estimate. RYL is a quality homebuilding holding if you are willing to take a longer view. (KDC)

**RYL: NYSE RANK A Dec. yrs. 13.3 mil. shares.**
Price: $19.63 Div. $0.60 Yield 3.1% Price/EPS: 7.1E

| | Op.EPS | Div. | High | Low | P/E Ratio |
|---|---|---|---|---|---|
| 1985 | $1.27 | $0.32 | $14.88 | $10.00 | 11.7-7.9 |
| 1986 | 2.02 | 0.38 | 27.63 | 11.25 | 13.7-5.6 |
| 1987 | 2.46 | 0.38 | 32.25 | 11.50 | 13.1-4.7 |
| 1988 | 3.10 | 0.53 | 20.63 | 12.75 | 6.7-4.1 |
| 1989E | 2.75 | 0.60 | 23.50 | 18.50 | |

z-To date.

Finances: Non-finance debt: $277.4 mil. Equity: $171.7 mil. or $13.37/share. Debt/Equity ratio: 1.62-1.
Address: P.O. Box. 4000, 10221 Wincopin Circle, Columbia, MD 21044. (301) 730-7222.

## STANDARD PACIFIC, L.P. (SPF: NYSE) RSR 5/29C

SPF is a MLP that builds single familiy move-up homes across booming Calif. Subsidiary, Standard Pacific Savings, F.A., offers financing to SPF homebuyers and subsidiary Panel Concepts manufactures office furniture and paneling. For SPF, 1988 was a year of tremenodous growth in all segments of its business, with homebuilding providing a major earnings boost. Shares hold A Rank.

**Gut Issue: Does the California housing party have to end?** We all know it does, but if interest rates moderate or fall, the Calif. housing boom could be sustained, albeit with somewhat diminished growth, for some time to come. We see 1989 as another record year for SPF.

Looming on the horizon is the question of whether SPF can ride this wave into 1990, as affordability continues to becomes the major stumbling block, even for move-up buyers, who must sell their previous homes first. Calif. housing prices, among the nation's highest, are already outrunning consumer ability to pay. The spiraling prices have invited a return to some speculative buying and flipping of purchase contracts, a practice that inevitably leads a slowdown.

California's housing boom has been boosted by slow-growth rules which limit new home supply. Since new homes are sold almost effortlessly in this environment, land supply is crucial to a homebuilders' success. And land supply is SPF's strong suit. SPF entered 1989 with 6,600 buildable lots, nearly a three year supply at its current development pace, so the major variable is whether demand continues. All demographic trends portend that the demand will be there for at least the near-term, but declining affordability casts doubt down the road. #41

In 1988, SPF delivered 1,756 homes, an increase of approx. 6%. Average selling price rose 27% to $240,570. Backlog declined 22% to 529. Gross profit margins reached 20.5%, up from 14.2% a year ago. With the boosted results, EPS rose 70% to $2.75/unit and we now see about $3.00/un. in 1990 and a flattening in 1991.

In the Mar. quarter, dollar volume was up 16% on 262 deliveries, off 30% and an average price that has soared 64% to $325,818. Gross profit margins were an astounding 29.2%.

**Advice: Buy/Hold shares for near-term to catch the last big wave of this housing cycle.** SPF offers the safest opportunity to ride the crest of the CA's hot housing markets. Because SPF is a master limited partnership (MLP), its $1.80 payout provides a 12% yield that is mostly tax-protected for now. But units are suitable only for individuals, not for institutions. (MJH)

**SPF: NYSE RANK A Dec. yrs. 26.9 mil. units**
Price: $15.38 Div. $1.80 Yield 11.7% Price/EPS: 5.5E

| | Op.EPS | Div. | High | Low | Yield |
|---|---|---|---|---|---|
| 1985 | $0.84a | $0.27 | $16.38 | $8.00 | 1.6-3.4% |
| 1986 | 1.11a | 0.40 | 16.88 | 6.75 | 2.4-5.9 |
| 1987 | 1.62 | 2.40b | 17.38 | 6.75 | 13.8-35.6 |
| 1988 | 2.75 | 1.20 | 12.38 | 8.13 | 9.7-14.7 |
| 1989E | 2.80 | 2.25 | 15.88 | 11.88z | |

a-Fully taxed EPS in 1985-86, and no taxes thereafter as SPF converted to MLP format 12/86. b-Special $1.50 distribution paid 4/87; Incl. $0.75/sh. undistributed 1988 income as per L.P. policy. Prices adjusted for 2-for-1 stock split paid 5/87. z-To date.

Finances: Debt: $229.6 mil. Equity: $168.7 mil. equals $6.26/unit. Debt/eq. ratio: 1.36 to 1.
Address: 1565 W. MacArthur Blvd., Costa Mesa, Cal. 92626. (714) 546-1161.

RSR 5/89C

## UDC-UNIVERSAL DEVELOPMENT L.P. (UDC: NYSE)

UDC, a master limited partnership, continues to record earnings gains. UDC builds retirement and family communities in Phoenix, northern and southern Calif., and Palm Beach County, Fla. UDC also builds homes and townhomes in N. and S. Carolina and Atlanta. UDC has diversified from 65% revenues based in Phoenix to 44% in 1988. B Rank continues.

**Gut issue: Will the Phoenix market hold up long enough to provide UDC with another year of double digit growth?** UDC has performed admirably in the soggy Phoenix market: its product has been on target, helping it avoid pitfalls that have swept away others. UDC's Foothills master planned community, located in south Phoenix, should contribute a steady 320-350 unit sales per quarter. Foothills is slated for over 3,000 homesites over 8-10 years.

UDC earned $3.80/unit in 1988, up 19%, on revenues that rose 27% to $331 mil. Mar. quarter EPS was up 43% to $0.60/share on revenues of $63 mil., an increase of 30%. Gross margins of 23.5% indicate strength in UDC's operating markets. Closings in 1988 were up 32% on a dollar basis to $316.3 mil. and 18% on a unit basis to 2,180. Net orders were up 31%, and backlog up 37% in dollars and up 26% in units to 1,068 DU.

UDC has shifted emphasis to the single family move-up market. This segment now accounts for 65% of units sold. Retirement markets in Ariz., No. Calif. and Fla. account for about 35% of UDC volume.

UDC controls land mostly thru land partnerships it helps organize, with UDC agreeing to take down lots on a schedule. UDC ended 1988 with controlled land available for approx. 19,700 homesites. About 70% of these sites are controlled by partnerships and 15% by Westbrook Village Venture, a separate partnership. The technique gives UDC control over future land supply without burdening its balance sheet with land-related debt.

**Advice: Buy short-term.** UDC is still on a roll. Barring another 2-3% rise in interest rates, we feel that in 1990, momentum alone should carry UDC to additional EPS gains in the 15-20% range. While UDC's focused approach has worked well during the long housing boom, it remains untested in a down cycle. UDC's units provide a 11.6% yield for individuals but cannot be purchase by tax exempt institutions. (MJH)

UDC: NYSE RANK B Dec. yrs. 9.36 mil. units
Price: $20.75 Div. $2.40 Yield 11.6% Price/EPS 4.7E

| | Op.EPS | Div. | High | Low | Yield |
|---|---|---|---|---|---|
| 1985 | $1.75a | $1.37 | $20.00 | $ 8.13 | 16.9- 6.7% |
| 1986 | 2.90 | 2.33 | 26.88 | 15.13 | 15.4- 8.7 |
| 1987 | 3.20 | 2.20 | 27.13 | 11.75 | 18.7- 8.1 |
| 1988 | 3.80 | 2.35 | 20.13 | 13.88 | 16.9-11.7 |
| 1989E | 4.40 | 2.60 | 21.00 | 17.75z | |

a-Excludes $0.37/sh. gain. z-To date.

Finances: Debt: $261.1 mil. Equity: $127.2 mil. equals $8.67/unit. Debt/eq. ratio: 2.05 to 1.
Address: 4812 South Mill Avenue, Tempe, AZ 85282. Phone (602) 820-4488.

RSR 5/89C #41

## U.S. HOME CORP. (UH: NYSE)

UH has returned to profitability by reducing oil belt exposure (to less than 10% of volume from over 50% in 1982) and refocusing on core homebuilding. In 1988, UH sold the bulk of its mortgage servicing portfolio, its building supply and concrete supply operations. UH sells in first-time, move-up and retirement markets, in about equal proportions.

**Gut Issue: Can UH continue its comeback during a down housing cycle?** Revenues from the sales of single family housing were down 10% in 1988 on a 23% volume reduction (much of it in Tex.), however average sale price increased 16% to $106,500, somewhat offsetting volume declines. The higher sales price reflects a shift toward move-up buyers and activity in stronger markets. Gross margins held at 18%. In the Mar. quarter revenues were up 10% on an 8% increase in average price. Gross margins were off slightly to 17%, reflecting incentives in softening markets.

For 1988, UH took new orders of 6,093 homes, a decrease of 23%. Deliveries were 22% lower at 6,178 DU and backlog was 44% below 1987 at 1,845 DU. Most declines result from de-emphasis of weak markets. UH now stresses profitability of sales, not market share or unit volume, and asset turnover.

In the Mar. quarter deliveries fell 2% to 1,300 and were divided 37% Fla.; 17% Southwest; 15% Calif.; 14% mid-Atlantic; 5% Minn.; and 4% Southeast. New orders and backlog were both off 9% in the quarter to 1,627 and 2,178 DU respectively. Included in these numbers are the results of 50% or less-owned joint ventures.

Mar. EPS plunged 50% to $0.01 per share from the $0.02 per share earned in the 1988 quarter. For 1988 UH earned $0.13 per share vs. a loss of $1.24 per share, making 1988 its first profitable year since 1983.

**Advice: Avoid shares or buy as speculative longer-term turn around.** It appears UH has stepped back from the brink of disaster and has a bit of breathing room. Looming ahead however is a period of softer housing sales thru which UH must maintain a burdensome high-interest debt structure. (MJH)

UH: NYSE RANK C Dec. yrs. 41.4 mil. shares
Price: $2.00 Div. None Yield 0% Price/EPS: 20E

| | Op.EPS | Div. | High | Low | P/E range |
|---|---|---|---|---|---|
| 1985 | $0.26 | $0.00 | $8.88 | $5.00 | NC% |
| 1986 | d2.05 | $0.00 | 9.25 | 4.13 | NC |
| 1987 | d1.24 | $0.00 | 8.25 | 1.63 | NC |
| 1988 | 0.13 | $0.00 | 3.38 | 2.50 | 5.2- 3.9 |
| 1989E | 0.10 | $0.00 | 2.00 | 1.75z | |

z-To date.

Finances: Debt: $397.1 mil. Equity: $179.6 mil. equals $4.34/unit. Debt/eq. ratio: 2.21 to 1.
Address: 1800 West Loop South, Houston, TX 77027. Phone (713) 877-2311.